

TEXAS

RACING COMMISSION

2012 ANNUAL REPORT

Submitted January 31, 2013



TEXAS

RACING COMMISSION

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TEXAS RACING COMMISSION
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January 28, 2013

The Honorable Rick Perry
Governor of the State of Texas
State Capitol, Room 200
Austin, Texas 78701

Dear Governor Perry:

On behalf of my fellow Commissioners and staff, I am pleased to submit the Texas Racing Commission's 2012 Annual Report in accordance with Section 3.10 of the Texas Racing Act, Article 179e, Vernon's Texas Civil Statutes. The Annual Report highlights the results of the Commission's regulatory efforts, along with statistics of interest.

The total amount wagered at tracks in the state—a critical measure of the health of a jurisdiction's pari-mutuel industry—has been on a nearly steady and significant decline since reaching its peak of \$633.7 million in 2000. In 2004, Lone Star Park in Grand Prairie hosted the Breeders Cup—the Super Bowl of horse racing—and the total amount wagered in Texas ticked up slightly. In 2005, the decline began anew and continued through 2011. The most recent data illustrates a flattening of the downward trend: the total amount wagered at Texas racetracks in 2012 was nearly \$321.5 million, a less than 1 percent increase from 2011. The 2012 figure represents a 49 percent decrease since 2000.

Texas racetracks continue to face many daunting challenges. Stiff competition from the additional wagering opportunities in all of our neighboring states and Mexico and unlawful gaming via the Internet represent two problematic issues. Complicating matters, Texas tracks over the years have decreased the number of racing opportunities available to horsemen and greyhound participants and the total amount in purses paid has dropped. Purses in Texas also pale in comparison with those of other states in the region.

As a direct byproduct, the breeding industry and associated agricultural businesses are suffering. For example, Texas is seeing the evidence of a movement away from the state among Thoroughbreds in the decreased number of foals produced and stallions standing for stud. From 1995 to 2010, the most recent year for which complete information is available, Texas' percentage of the national foal crop has fallen from 7.1 percent to 2.7 percent.

Despite the struggles the industry faces, the Commission's role to regulate remains unchanged. On behalf of the Texas Racing Commission, I reiterate our commitment to providing fair, effective and efficient regulation of the pari-mutuel industry.

Respectfully submitted,

A handwritten signature in blue ink that reads "Robert Schmidt 70".

Robert Schmidt, MD
Chairman

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TEXAS RACING COMMISSION
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January 25, 2013

The Honorable Rick Perry
Governor of the State of Texas
State Capitol, Room 200
Austin, Texas 78701

Dear Governor Perry:

I respectfully submit the Commission's 2012 Annual Report.

The Commission regulates a complex industry that operates seven days a week, 364 days a year. Our Commissioners give time and energy, and, based on a wealth of professional and business expertise, provide quality leadership. Their contributions are invaluable.

I highly commend my staff. Agency employees work long hours in a highly regulated industry and do so with an ultimate sense of teamwork. We all remain determined and dedicated to protecting the broad public interest and integrity, as well as the health, safety and welfare of all involved in racing.

On behalf of the Commissioners and agency staff, I thank the Texas Department of Public Safety and the Texas Comptroller of Public Accounts as each consistently provides critical assistance in regulating the pari-mutuel industry. These state agency partnerships effectively demonstrate the benefits derived from coordinated efforts and resources.

Sincerely,

A handwritten signature in blue ink, appearing to read "C. Trout", with a long horizontal flourish extending to the right.

Chuck Trout
Executive Director

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TEXAS DEPARTMENT OF PUBLIC SAFETY

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DEPUTY DIRECTORS



COMMISSION
A. CYNTHIA LEON, CHAIR
CARIN MARCY BARTH
ADA BROWN
ALLAN B. POLUNSKY
RANDY WATSON

January 04, 2013

Dr. Robert Schmidt, Chairman
Texas Racing Commission
8505 Cross Park Drive, Suite 110
Austin, Texas 78754-4594

RE: ARTICLE 179e, SECTION 3.10
VERNON'S TEXAS CIVIL STATUTES

Dear Chairman Schmidt,

Pursuant to the requirements outlined in Article 179e, Section 3.10 of Vernon's Texas Civil Statutes, the Texas Department of Public Safety provides the following information relating to organized crime and illegal gambling in Texas for the year 2012.

CRIMINAL ACTIVITY AND CRIME TRENDS

Today, Texas faces far more insidious threats than it has in the past, to include ruthless Mexican cartels, violent transnational and statewide gangs, high-threat criminals such as sex offenders who prey upon children, domestic terrorists, and international terrorist organizations that seek to destroy us and our way of life.

In 2012, the Department was committed to enhancing its resources regarding Homeland Security in order to continue to protect Texas from increasingly dangerous criminal and terrorism threats. To accomplish this goal, the Department concentrated its resources on criminal organizations and transnational gangs involved in criminal enterprises such as drug trafficking, human trafficking, vehicle theft, and other types of major criminal activity. The Texas-Mexico border region contains distinctive and complex security challenges that impact not only local areas, but also metropolitan areas across the United States. The continued violence along the border and the multi-billion dollar drug and human smuggling businesses posed the most serious threat to Texas and the nation. Efforts to curtail the border violence continued to be effective due to the growing partnerships cultivated with local, state, and federal agencies in Texas. This multi-agency collaboration contributed to numerous successes in 2012 through extensive investigations regarding high-risk criminals and predatory criminal gangs.

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Additionally, the increasing number of identity theft and other fraud schemes, aided by rapidly changing technology, continued to plague law enforcement agencies at all levels of government. Law enforcement officials continued to work to protect citizens who have fallen victim to these types of criminal activities.

The reportable crime index for 2012 will not be available until late 2013.

ILLEGAL GAMBLING

Illegal gambling involving 8-liner businesses continued to be an issue, reflected by the number of referrals received by local and state officers this past year. Gambling related to animals, such as dog fights and cockfights, is known to occur and challenge law enforcement, predominantly in the rural areas and the inner metropolitan city neighborhoods of Texas.

Unsanctioned horse racing at non pari-mutuel tracks, or "brush tracks," continued to occur in both metropolitan and rural areas in Texas. Racing authorities and racing interests are certain these unsanctioned tracks have an adverse impact on the legitimate pari-mutuel tracks and the racing industry in Texas, both operationally and economically. While unsanctioned horse racing is an issue, using covert operations to identify individuals involved in illegal activities at these tracks is difficult due to the familiarity the participants have with each other. Moreover, the erratic scheduling of these operations and the undisclosed rural locations further hindered investigations by law enforcement officers. The Department continues to coordinate with local and state law enforcement agencies in an effort to reduce and eliminate these illegal businesses.

Sincerely yours,

Thomas Ruocco, Assistant Director
Criminal Investigations Division

A handwritten signature in cursive script that reads "WJ Reynolds".

Wynn Reynolds, Major
Criminal Investigations Division

THE COMMISSION

The Texas Legislature created the Texas Racing Commission in 1986 to be the state agency responsible for overseeing and regulating pari-mutuel horse and greyhound racing in Texas. The Commission functions pursuant to authority granted in the Texas Racing Act, Vernon's Texas Civil Statutes, Art. 179e.

MISSION

To enforce the Texas Racing Act and the Rules of Racing to ensure the safety, integrity and fairness of Texas pari-mutuel racing.

PHILOSOPHY

The Texas Racing Commission performs its responsibilities in strict compliance with state laws. The agency conducts its regulatory activities fairly, consistently, efficiently and courteously.

THE COMMISSIONERS

Of the nine board members, the governor appoints seven with the advice and consent of the Texas Senate. Two commissioners, the Comptroller of Public Accounts and the Chair of the Public Safety Commission, are ex-officio members. The seven non-salaried commissioners serve overlapping six-year terms.

Of the seven appointees, five represent the public and have general knowledge of business or agribusiness. One may be a veterinarian. One member must have experience or special knowledge of greyhound racing and one must have experience or special knowledge of horse racing. The governor designates the Commission's chairman. The nine members elect a vice chair for a two-year term.

Gov. Rick Perry appointed **Robert Schmidt, MD**, of Fort Worth to chair the Commission on September 2, 2011. Schmidt previously served as the Commission's vice chair and first joined the Commission in November 2007. Schmidt is a practicing orthopedic surgeon and a partner of the Texas Hip and Knee Center, L.L.P. He also serves as Chief-of-Staff at Plaza Medical Center of Fort Worth and Chair of the Division of Orthopedics of North Texas Specialty Physicians Network. Chairman Schmidt's term expires February 1, 2017.

Ronald F. Ederer of Corpus Christi was appointed in July 2007 as the commissioner with knowledge or experience related to horse racing. In November 2011, his fellow commissioners elected Ederer to serve as the Commission's vice chair. Ederer, an attorney in private practice, previously served as the US Attorney for the Western District of Texas. He is a member of the State Bar of Texas, San Antonio Bar Association, American Bar Association and the Federal Bar Association. His term expires February 1, 2013.

Gary P. Aber, DVM, of Simonton was appointed to the Commission in May 2012. Aber is a veterinarian and owner of Simonton Veterinary Clinic. He is a member of the American Association of Equine Practitioners. He received a bachelor's degree from Texas Tech University and a Doctorate of Veterinary Medicine from Texas A&M University. His term expires February 1, 2015.

Gloria Hicks of Corpus Christi was appointed in November 2007. She is the chief financial officer of Ed Hicks Imports. She is a member and past president of the Texas State Aquarium Board and a member of the South Texas Institute of the Arts Board of Governors. Hicks serves as a board member of the South Texas Botanical Gardens, Citizens for Education Excellence,

Texas Society of Certified Public Accountants and American Institute of Public Accountancy. In October 2008, she was appointed as the commissioner with special knowledge or experience related to greyhound racing. Her term expires February 1, 2017.

Michael F. Martin, DVM, of San Antonio was appointed in November 2010. Martin is a veterinarian and principal owner of Retama Equine Hospital, Inc. He is a member of the American Association of Equine Practitioners, American and Texas Quarter Horse associations, and American and Texas Veterinary Medical associations. Martin is also a member of the Texas Equine Veterinary Association Board of Directors. His term expires February 1, 2015.

John T. Steen III of Houston joined the Commission in October 2011. Steen currently serves as vice president of business development at Sage Midstream. He is a Chartered Financial Analyst charter holder, an Eagle Scout and a life member of the Sons of the Republic of Texas. He is also a past member of the State Board of Dental Examiners. Steen's term expires February 1, 2013.

Vicki Smith Weinberg of Colleyville was appointed in April 2009. Weinberg is a self-employed real estate investor and a member of the International Council of Shopping Centers. She is also past education foundation director for the Grapevine-Colleyville Independent School District. Weinberg's term expires February 1, 2015.

EX-OFFICIO MEMBERS

Allen B. Polunsky is the Public Safety Commission's representative on the Racing Commission. Appointed to the Public Safety Commission in 2007, he served as its chair from 2008 to March 2012. Polunsky is managing partner and founder of Polunsky and Beitel, LLP. He is a past member of the Texas Board of Criminal Justice, where he served 13 years, including five as chairman. He is also past president of the City of San Antonio Industrial Development Authority, past chairman of the San Antonio Zoning Commission and a past board member of the Finance Commission of Texas. Additionally, Polunsky is a past board member of the San Antonio River Authority, Special Olympics of Texas and San Antonio Food Bank.

Susan Combs of Austin was sworn into office in January 2007 as the Comptroller of Public Accounts and won reelection in 2010. Ann O'Connell, Special Counsel to the Comptroller and Director of Criminal Investigations, serves as Combs' official designee at Commission meetings.

SIGNIFICANT COMMISSION ACTIONS AND ACTIVITIES

The Racing Commission met six times during calendar year 2012. The Commission's meetings are open to the public and, in addition to the required postings in the Texas Register, the agendas and agenda materials are posted on the agency's website before meetings. Transcripts of each Commission meeting are also available at www.txrc.state.tx.us.

RACE DATE ALLOCATION

Between 2009 and 2011, the number of race dates that Texas horse tracks requested declined from 265 to 229. The reduced schedules that horse tracks made to the 2011 racing calendar carried into 2012 when tracks ran 193 days. With Lone Star Park, Retama Park, Sam Houston Race Park and Gillespie Fair and Festivals Association offering a total of 187 days of live racing in 2013, racing opportunities have stabilized for now.

After steep declines from 2009 to 2011, racing opportunities remain relatively stable in 2012 and 2013.

In 2013, Gulf Greyhound Park will continue its year-round racing schedule. The number of performances the track is offering drops from 271 in 2012 to 260 in 2013. Valley Race Park requested five performances in 2013 and Gulf Coast Racing requested none.

PARI-MUTUEL ADVISORY COMMITTEE

The Pari-Mutuel Advisory Committee reviews agency rules regarding pari-mutuel pool distribution, pari-mutuel department operations and totalisator (tote) operations. The committee includes mutuel managers and simulcast coordinators from each Texas racetrack, a representative of the Texas Horsemen's Partnership, each of the various breed organizations, the three tote companies operating in Texas, and the Comptroller of Public Accounts, as well as the Commission's senior team members from the Division for Finance and Wagering.

As part of a broader 2010 Commission rule review, the committee engaged in a complete assessment of Chapter 321. Because of the potential for significant nationwide impact, the committee tabled changes related to Subchapter B (Totalisator Requirements and Operating Environment). This allowed further vetting of the proposals at the national level, specifically through the Association of Racing Commissioners International.

During 2011, at RCI's invitation, staff brought the proposed tote standard changes to the RCI Wagering Systems Security Committee for comment and consideration. In July 2011, a day after the RCI's Model Rules Committee voted unanimously to approve the standards, RCI's Executive Board formally adopted them. In December 2012, the Texas Racing Commission adopted, by reference, the tote standards adopted by RCI. The changes to tote standards that began in Texas now serve as a model for the nation.

COMMITTEE ON RULES

During 2012, the Committee on Rules met six times. The committee closed the reviews of Chapters 301 (Definitions), 303 (General Provisions) and 319 (Veterinary Practices and Drug Testing) that it began in June 2011. It opened a rule review on Chapter 309 (Racetrack Licenses and Operations).

The Commission adopted 17 rules recommended by the committee in 2012. The committee continued its work implementing changes resulting from Sunset legislation passed during the 82nd

Legislative Session. The Committee on Rules to Implement HB 2271 (Sunset legislation)—worked in conjunction with the Committee on Rules to facilitate necessary changes. The major work centered on establishing guidelines for designating racetrack licenses as active or inactive.

HORSE AND GREYHOUND RACE DATES CALENDAR COMMITTEES

The Horse and Greyhound Race Dates Calendar committees provided a forum for interested stakeholders and the public to discuss proposed race date calendars. Topics at the meetings included the potential number and locations of race dates and the purse levels for those dates.

The committees met once each to discuss industry calendar proposals. The Commission allocated race dates for both 2012 and the first 8 months of 2013 for greyhounds at its October 2012 meeting and for horses at its December 2012 meeting.

SAFETY AND MEDICATION WORKING GROUP

The Safety and Medication Working Group met twice in 2012, providing a valuable forum for all stakeholders to discuss critical safety and medication issues.

One major topic concerned the medication furosemide (commonly called Lasix or Salix, well-known brand names), a drug that prevents Exercise-Induced Pulmonary Hemorrhage (EIPH) in horses. A horse predisposed to EIPH may bleed from its lungs during strenuous activity. Some people believe that furosemide also serves to enhance a horse's performance. Specific dosages of furosemide are allowable on race day no less than four hours before post time of a given race.

The discussion centered on the question of who should be allowed to administer furosemide on race day. Some stakeholders would like to transfer the authority to administer furosemide from private practitioners to either Commission or privately contracted veterinarians. The Commission expects this issue to remain a topic into 2013.

In January 2012, the Commission lowered the threshold for phenylbutazone (bute) after vetting the change through the working group. Bute is an acceptable anti-inflammatory for racehorses, though at higher levels, it may mask lameness during pre-race inspections.

ACTIVE/INACTIVE STATUS AND DESIGNATION OF TRACKS

Sunset legislation passed by the 82nd Legislature required the Commission to identify each racetrack licensee as active or inactive and establish a renewal process for inactive track license holders. Any track designated as inactive must apply for annual renewal until it either becomes active or the Commission refuses to renew the license.

The final rule adopted by the Commission in June 2012 enumerates three possible designations for racetracks: Active-Operating, Active-Other and Inactive.

To be designated as Active-Operating, the license holder must have conducted live racing events at the racetrack during the previous state fiscal year and have been granted future live race dates.

**Commission designates
tracks as Active or Inactive in
August 2012.**

To be designated as Active-Other, the license holder must have applied for and received pending live race dates and have taken one of the following actions to demonstrate good faith efforts to conduct live racing:

- be presently conducting pre-opening simulcasting;
- have demonstrated that the conduct of simulcast or live racing is imminent; or
- voluntarily provided a bond to ensure that the license holder conducts pre-opening simulcasting and completes the pending allocated live race dates.

In August 2012, the Commission made its initial designations. Effective September 1, 2012, the Active-Operating tracks included Gillespie County Fair & Festivals Association, Gulf Greyhound Park, Lone Star Park, Retama Park, Sam Houston Race Park and Valley Race Park. The Commission designated Gulf Coast Racing and Valle de los Tesoros as Active-Other, and Laredo Downs, Laredo Race Park, Longhorn Downs, Manor Downs, and Saddle Brook Park as Inactive. Inactive tracks must submit their renewal packets to the agency for consideration by July 1, 2013.

STATUTORY REQUIREMENTS RELATED TO ONLINE WAGERING

During its review, Sunset also took note of the unregulated entities that take wagers from Texans over the Internet. In Texas, the only place a person may place a legal wager on a horse or greyhound race is on the grounds of a licensed pari-mutuel racetrack. However, these unregulated companies were using a technology not contemplated when the Texas Racing Act was passed and using the resulting ambiguity in the law to defend their actions. The Sunset legislation clarifies that all entities, whether in-state or out-of-state, are prohibited from accepting these types of wagers.

The Commission initially sought voluntary compliance with state law from the nine companies reported to be actively offering advanced deposit wagering to Texans. Eight of the nine complied with the Commission's voluntary compliance request. The ninth, Twin Spires, a Churchill Downs-owned company, instead filed a motion for a temporary injunction to prohibit the Commission from enforcing the statutory prohibition of online gaming. This litigation is ongoing.

OWNERSHIP AND LOCATION CHANGE REQUEST ACTIVITY

Austin Jockey Club/Longhorn Downs

At its meeting in February 2012, the Commission approved a request by the Austin Jockey Club, Ltd., to convey its ownership in Longhorn Downs to KTAGS Downs Holding Company, LLC. The Commission also approved a request to change the location of Longhorn Downs to a site in Creedmore, which is eight miles south of Austin.

Retama Park

In August 2012, the Commission received a request from Retama Partners, Ltd., to convert its organizational structure to a limited liability company, and then to convey 75.5% of its ownership interest in that company to a subsidiary of Pinnacle Entertainment, Inc., a publicly traded company. The Commission approved these requested changes in December 2012.

ACTIVE/INACTIVE STATUS ACTIVITY

The activity reflected below occurred after the Commission's initial designation of tracks as active or inactive in August 2012 (noted on pages 9-10).

Saddle Brook Park

In June 2012, Saddle Brook Park submitted a request to open a temporary location, called Saddle Brook Jockey Club, in which to conduct simulcast racing. The Commission approved the request in August and, at its October meeting, approved live race dates for Saddle Brook Park in October 2014. Saddle Brook Park opened its temporary facility for simulcasting on December 13, 2012, and the Commission subsequently redesignated the license as Active-Other at its December meeting.

AGENCY OVERVIEW

The Racing Commission regulates all aspects of pari-mutuel horse and greyhound racing through licensing, on-site monitoring and enforcement. Statute and rule require the Commission to:

- License racetracks that offer racing and the people directly involved with pari-mutuel wagering who work at the racetracks or own race animals.
- Allocate race dates, supervise the conduct of all races, monitor the health and safety of the race animals and conduct drug tests to ensure the animals race without prohibited substances.
- Oversee all pari-mutuel wagering activity, approve simulcasts, test the tote systems (complex computer systems that tally and calculate pari-mutuel wagers) and ensure the proper allocation and distribution of revenue generated by pari-mutuel wagering.
- Administer the Texas-Bred Incentive Program, which provides economic incentives to support a healthy and vigorous breeding industry in the state.

ORGANIZATIONAL STRUCTURE

The General Appropriations Act authorizes the agency to have 62.3 full-time equivalent positions in FY 2012 and FY 2013. This is down from the 75.5 authorized full-time equivalent positions in FY 2010 and FY 2011. While the Racing Act requires the Commission's headquarters to be in Austin, a large number of staff members work at the operating racetracks. Many of the employees outside Austin are seasonal, working only when the racetracks conduct live racing.

The Commission's workforce features a diverse collection of professions that includes auditors, veterinarians, stewards, racing judges, investigators, licensing staff and support personnel.

The Commission has a field office at the three operating Class 1 horse racetracks and at two of the three currently operating greyhound racetracks. Additionally, staff is always present at any field office when that track is running live racing.

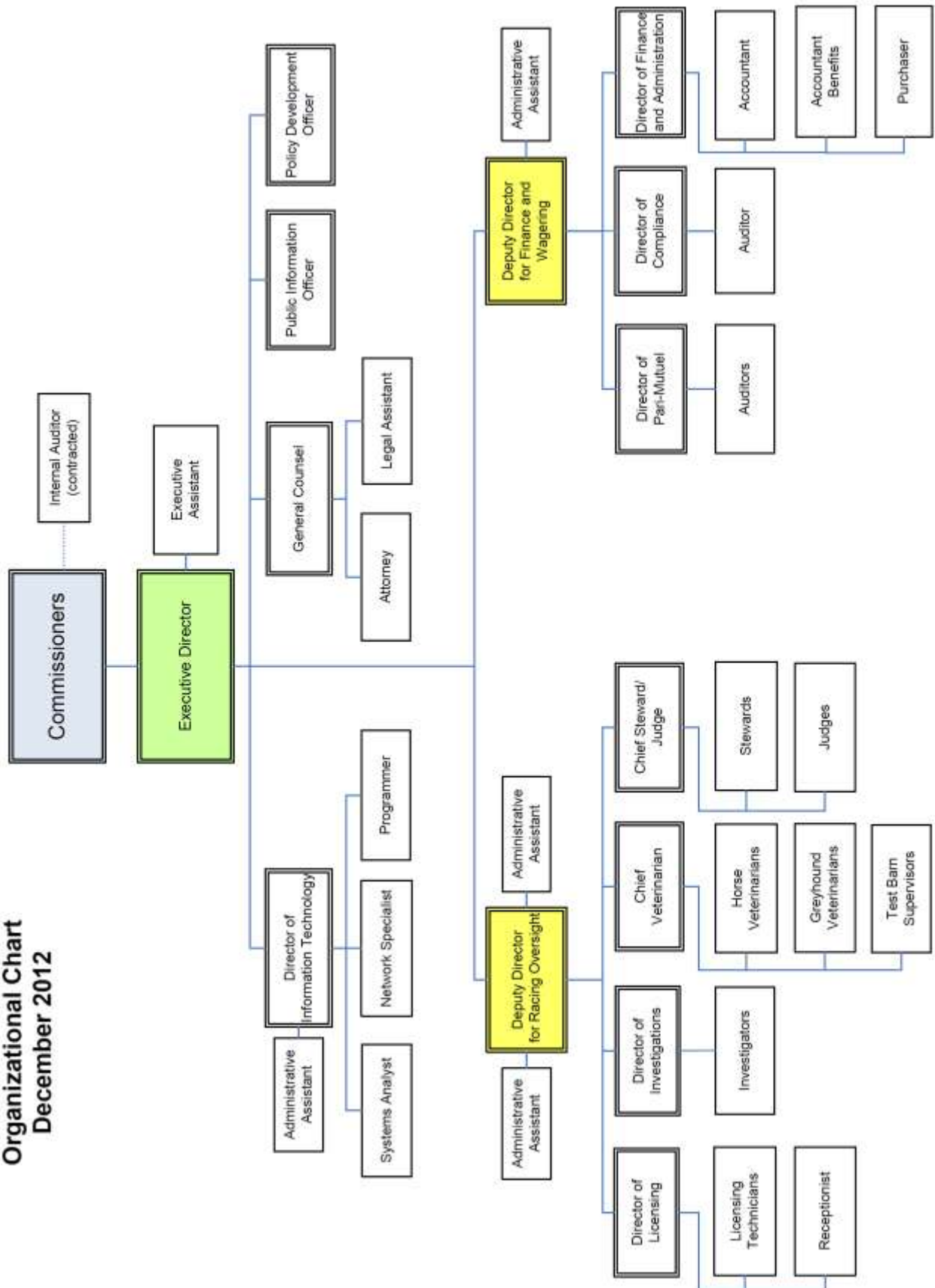
The agency's structure features an executive group headed by an executive director, a Division for Racing Oversight, and a Division for Finance and Wagering. A deputy director leads each division.



TEXAS RACING COMMISSION

Organizational Chart

December 2012



FISCAL INFORMATION

BUDGET AND FINANCE

The Commission is self-funded by the entities it regulates and is typically appropriated only GR–Dedicated funds. The agency’s revenue primarily comes from fees assessed to racetracks and occupational licensees.

For FY 2012, the Commission had a total appropriation of approximately \$8.66 million. The agency’s operating budget was \$4.54 million, of which approximately 80 percent was salary and salary-related expenses. The \$8.66 million appropriation included a direct, dedicated-revenue pass-through of almost \$4.13 million for the Texas-Bred Incentive Program.

The Texas-Bred Incentive Program is authorized in the Racing Act. It provides purse supplements and monetary awards to breeders and owners of Texas-bred greyhounds and horses to encourage economic development through agribusiness in the horse and greyhound breeding industries.

Funding for the Texas-Bred Incentive Program comes from breakage from all types of wagers and a small percentage of all exotic wagers. Generally, breakage is the amount available after payoffs to winning ticket holders rounded down to the nearest dime.

AGENCY HIGHLIGHTS

ADMINISTRATIVE

During FY 2012, the agency met or exceeded all of its five performance outcome measure targets. Those targets are related to: increasing the percentage of compliance audits passed; reducing the rate of rulings by maintaining a high percentage of investigations resulting in disciplinary action; having a high percentage of licensees with no recent violations; meeting the animal injury related benchmark; and bettering the average time to issue a new occupational license.

The executive division coordinated six regular Commission meetings. The general counsel coordinated rule reviews for Chapters 301, 303 and 319 as required by Government Code §2001.039. The general counsel also facilitated the development of rules necessary with passage of the Sunset legislation. During the year, the Commission adopted 17 new rules or amendments to existing rules.

In 2012, the Commission met or exceeded all five of its performance outcome measure targets.

TECHNOLOGY

In 2012, the information technology department focused on technology upgrades. The PC transition to Windows 7 was completed in late January.

The existing network underwent technology updates that have led to increased speed. The agency also purchased a voice-over-IP phone system to replace an existing system that was more than ten years old.

In 2012, staff reached major milestones on a server consolidation and migration project that began in late 2011. The project includes a database migration, adding a database for public information and upgrading database infrastructure and applications. Final testing and implementation is scheduled for early 2013.

Additionally, several in-house applications were completed that improved information delivery, increased security and automated administrative tasks.

REGULATORY

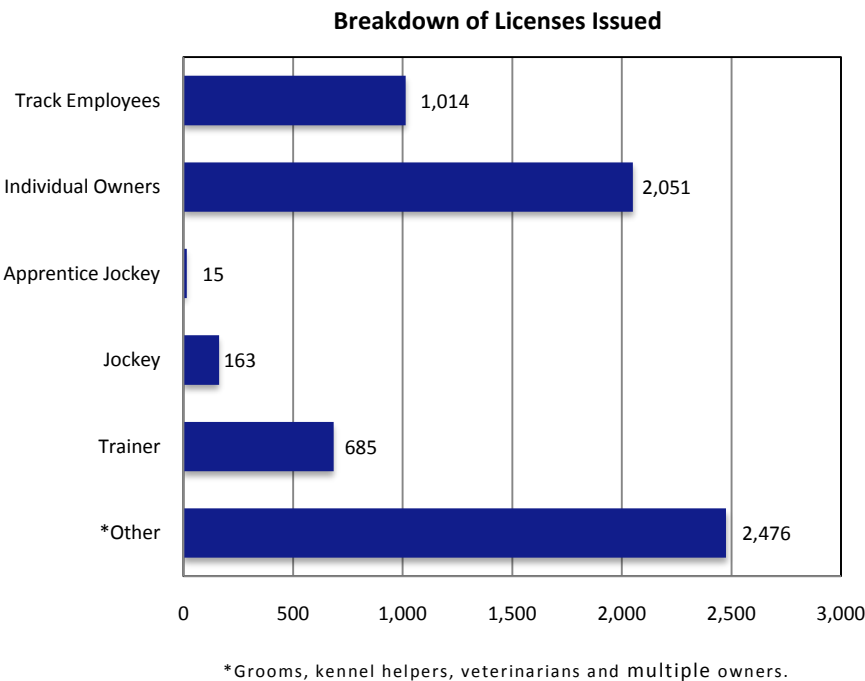
In 2012, pari-mutuel auditors reviewed wagering data on 5,523 live races and 717,992 simulcast races to ensure proper collection and distribution of funds. Staff reviewed a total of 1,735 import and export simulcast requests for compliance with the Racing Act, the Texas Rules of Racing and the Federal Interstate Horse Racing Act.

Sunset legislation effective in 2011 ushered in significant occupational licensing changes. The Commission used to issue occupational licenses and registrations to *all* persons involved in pari-mutuel greyhound and horse racing. After September 1, 2011, the Commission began to license only those individuals in positions with the opportunity to influence pari-mutuel wagering or likely to have significant access to the backside or restricted areas of a racetrack.

Overall industry declines combined with the changes in the occupational licensing requirement resulted in licensing department cuts in 2011. Those cuts, which continued through 2012, necessitated alterations to licensing office schedules when tracks are not running live meets or are not open for training. For example, the licensing office at Lone Star Park is mostly part time when there is no active live racing. At Sam Houston Race Park, the Commission reduced licensing office hours from 40 hours a week to 20 and decreased the licensing office hours at Valley Race Park from 20 a week to four.

The decreased office hours and the closure of some of the licensing offices does mean fewer face-to-face interactions with Commission staff. However, most customers still have full access to licensure through Texas.gov or a mail process.

In 2012, the Commission issued 6,404 occupational licenses—down more than 16.5 percent from 2011—and 75 business licenses. The reduction in licenses issued is attributable directly to the overall decline in the racing industry and the implementation of the revised licensing policy. Of the occupational licenses issued, 2,107 were for new licenses and 4,297 were for renewals. The 75 business licenses consisted of 10 kennel licenses and 65 vendor licenses.

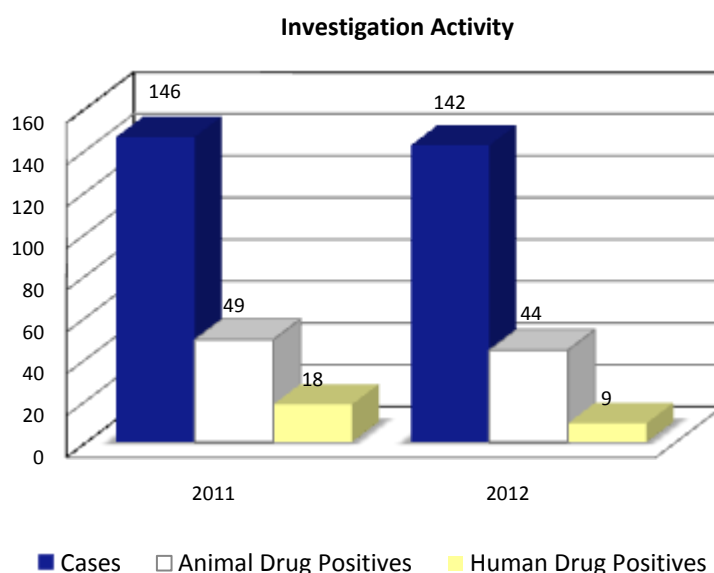


In the past, applicants for licensure had to submit fingerprints to the agency every three years, along with a processing fee. The Department of Public Safety submitted those fingerprints to the FBI for background check purposes. Taking advantage of changes implemented at DPS, the Commission passed a new rule in 2012 that will ultimately save licensees money and make the renewal process more convenient for renewal applicants and generally less cumbersome. If DPS already has a renewal applicant's fingerprints on file, the Commission simply requests DPS to resubmit the existing prints to the FBI, eliminating the need for new fingerprint cards and the portion of the fingerprinting fee associated with submission of hard-copy fingerprint cards. This new process also saves licensing considerable time as staff no longer must fingerprint every applicant up for a three-year renewal.

INVESTIGATIONS

By allocating resources tactically and cooperating with the DPS and local law enforcement agencies, the department strives for voluntary compliance with agency rules. The critical assistance from these entities helps ensure the safety of the public, participants and animals involved in racing.

Investigators, along with the DPS and local law enforcement, continue to perform random inspections at all operating racetracks and licensed training centers. These inspections resulted in 27 contraband case referrals to the respective Board of Stewards or Judges. Stewards and judges issued a total of 293 disciplinary rulings. These included 219 fines, 93 suspensions and one revocation.



ANIMAL EXAMINATIONS / DRUG TESTING

Historically, the majority of the horse positives have been the result of inadvertent or improperly timed administration of medications considered to have therapeutic value in the horse but unlikely to be of a performance enhancing nature. Therapeutic medications have a legitimate role in the care and maintenance of any active animal, horses and dogs included.

The Racing and Medication Testing Consortium is a national, non-profit organization that strives to develop uniform medication rules, testing procedures, thresholds and withdrawal guidelines for therapeutic medications for jurisdictions across the country. RCI requested RMTC recommendations for thresholds and withdrawal times (how long an animal must be off a medication before racing) for therapeutic medications. RCI is expected to adopt in its model rules the RMTC recommendations.

The Racing Commission's executive director recently modified the agency's drug testing policy to bring it more in line with the majority of RMTC recommendations to RCI. The policy revisions to thresholds and withdrawal periods apply only to certain therapeutic drugs. Texas remains a zero-tolerance state with regard to performance enhancing drugs.

Another ongoing development in drug testing methodology relates to the sensitivity of the tests themselves. Labs now are able to detect the presence of drugs at much lower concentrations. Improved techniques and tests are allowing the Commission to screen for a greater number of drugs than ever before.

INSPECTION PROGRAM

The Commission helps ensure that pari-mutuel racing is safe for the participants and the public. To accomplish this, the Commission developed a comprehensive inspection program of licensed racetracks and training facilities. Through this inspection program, the Commission oversees all pari-mutuel racetrack license holders to monitor and ensure compliance with Commission rules.

INSPECTIONS BY AREA

The Commission's inspection program is separated into six inspection areas:

- Live racing operations inspections focus on all aspects of animal housing—including maintenance and cleanliness of barns and kennel areas—the condition of the track surface, starting gates and boxes, rails and distance markers.
- Animal health and safety/drug testing operations inspections cover the drug testing facilities and equipment, the treatment areas and the equine ambulance. The inspections include a review of the overall maintenance of the backside areas with emphasis on ensuring a safe environment for both animals and licensees.
- Pari-mutuel wagering operations inspections include a review of all aspects of the wagering operations, including the track’s mutuel department, the tote company’s operations and all related wagering equipment.
- Safety and security inspections focus on all security aspects of the facility, including outdoor lighting, fencing, medical and first aid services, and fire prevention measures, including inspecting the barns to ensure proper storage of hay and feed.
- Administrative operations inspections center on association ownership records, bookkeeping and accounting systems. These inspections include a review from the patron’s viewpoint, including cleanliness of patron facilities and amenities, posting of pertinent public notices and proper signage on automatic banking machines.
- Training track inspections focus on the facility’s overall track condition, including the track surface, starting gate, rails and distance markers. Other areas of focus include checking for proper licensing of training facility personnel and those bringing horses for official works.

2012 Inspections by Area	
Type of Inspection	#
Live Racing Operations	19
Animal Health and Safety/Drug Testing Operations	13
Pari-mutuel Wagering Operations	15
Safety and Security	17
Administrative Operations	9
Training Tracks	2
TOTAL	75

TEXAS-BRED INCENTIVE PROGRAM

The Racing Act provides purse supplements and monetary awards to breeders and owners of accredited Texas-bred horses and greyhounds to encourage the horse and greyhound breeding industries.

GREYHOUND PROGRAM

Funding for the Texas-Bred Greyhound Incentive Program is derived from:

- 50 percent of the total breakage from live, simulcast same-species and simulcast cross-species handle; and
- 1 percent of all multiple two and multiple three wagers from simulcast same-species and simulcast cross-species handle.

The 50 percent of breakage and the 1 percent of multiple two and three wagers are paid to the Texas Greyhound Association. The breakage money is dedicated 50 percent to stakes races and 50 percent for administration of the Accredited Texas-Bred program. The money received from multiple two and three wagers is paid as awards to those owners of accredited Texas-bred greyhounds finishing first in races run at Texas tracks. Once a month, these funds are distributed by dividing the monthly total available for awards by the number of winning Texas-bred greyhounds for that month.

Of the total money from breakage received by the TGA, 2 percent must be set aside for grants for rehabilitating or locating homes for greyhounds. During 2012, eight grants were distributed from this source of funding to qualified Texas non-profit rehabilitation and adoption groups totaling \$2,000, including an added contribution of \$700 by the TGA.

Purse money earned from interstate simulcast wagering on greyhound races at a horse track is also paid to the TGA for use at Texas greyhound racetracks.

This source of purse money resulted in \$1,345,863 going to purses at Gulf Greyhound Park in 2012. This source remained fairly constant, decreasing less than 5 percent from the 2011 payout.

HORSE PROGRAM

The Racing Act authorizes an incentive award for each owner, breeder and stallion owner of an accredited Texas-bred horse that finishes first, second or third in any race other than a Texas-bred stakes race. The awards are funded from:

- breakage from all pari-mutuel pools; and
- 1 percent of all multiple two and multiple three wagers from live, simulcast same-species and simulcast cross-species handle.

Comparative Distributions Year 2012 vs. Year 2011			
	2011	2012	% Change
Texas Thoroughbred Association	\$1,774,914	\$1,832,400	3.24%
Texas Quarter Horse Association	\$883,954	\$907,520	2.67%
Texas Greyhound Association	\$510,049	\$485,275	-4.86%
Texas-Bred Stakes Race Supplements	\$93,129	\$94,362	1.32%
Texas Arabian Breeders Association	\$50,864	\$52,519	3.25%
Texas Paint Horse Breeders Association	\$25,395	\$26,365	3.82%
TOTAL	\$3,338,305	\$3,398,442	1.80%

A Texas-bred stakes race supplement is funded from 9.8 percent of the breakage from all pari-mutuel pools. This money is retained by the racetracks for distribution through the horsemen's bookkeeper. Horses finishing in an accredited Texas-bred stakes race receive an incentive award as a purse supplement according to the payout conditions of the race.

The remaining money is distributed on a 40 percent, 40 percent and 20 percent split, respectively, among the owners, breeders and stallion owners of the accredited Texas-bred horse.

The Racing Act names the official breed registries that are responsible for determining the qualifications for Texas-bred accreditation, maintaining the eligibility lists and distributing the monetary awards: the Texas Thoroughbred Association, the Texas Quarter Horse Association, the Texas Appaloosa Horse Club, the Texas Arabian Breeders Association and the Texas Paint Horse Breeders Association.

The Texas Appaloosa Horse Club does not participate in this program.

2012 PURSE STATISTICS

Source of Funds	Quarter Horse	Thoroughbred	Arabian	Paint	TOTAL HORSE
Earned Purse	\$6,274,118	\$14,990,440	\$260,900	\$104,800	\$21,630,258
Texas-Bred Stakes	\$10,000	\$0	\$0	\$0	\$10,000
Stakes	\$1,539,367	\$338,200	\$42,950	\$73,808	\$1,994,325
Sponsors	\$447,530	\$115,000	\$90,650	\$37,330	\$690,510
Fund Transfers	\$0	\$34,560	\$0	\$0	\$34,560
ATB Sponsored Purse	\$3,500	\$65,250	\$0	\$0	\$68,750
TOTAL PURSES PAID	\$8,274,515	\$15,543,450	\$394,500	\$215,938	\$24,428,403
Average Daily Purses Paid at All Meets	\$99,693	\$132,850	\$13,150	\$53,984	\$104,395

NOTE: Texas Appaloosa Horse Club no longer participates in the Texas-bred Program.

Source of Funds	TOTAL GREYHOUND	Source of Funds	2011 HORSE & GREYHOUND	2012 HORSE & GREYHOUND	% CHANGE
Earned Purse	\$1,158,356	Earned Purse	\$20,198,745	\$22,788,614	12.82%
Texas-Bred Stakes	\$0	Texas-Bred Stakes	\$67,500	\$10,000	-85.19%
Stakes	\$20,000	Stakes	\$4,079,645	\$2,014,325	-50.63%
Sponsors	\$75,985	Sponsors	\$1,014,012	\$766,495	-24.41%
Fund Transfers	\$514,135	Fund Transfers	\$0	\$548,695	100.00%
TGA Cross-Species Purse Supplements	\$1,345,863	TGA-Cross Species Purse Supplements	\$1,431,505	\$1,345,863	-5.98%
TOTAL PURSES PAID	\$3,114,339	ATB Sponsored Purse	\$155,744	\$68,750	-55.86%
Average Purses Paid per Performance	\$11,492	TOTAL PURSES PAID	\$26,947,151	\$27,542,741	2.21%

Summary of All Texas Greyhound Racetracks
from 1/1/2012 through 12/31/2012

	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
	Live On-Track	Live Export	Simulcast Same-Species	Simulcast Cross-Species	Sum of 1 through 4 Total	Sum of 1 & 2 Live On-Track & Export Total	Sum of 3 & 4 Combined Simulcast Import Total	Sum of 1 & 7 Combined On-Track Total
Number of Race Days	256	n/a	1,445	1,364	3,065	256	2,809	3,065
Number of Performances	271	n/a	12,610	11,810	11,810	271	24,420	24,691
Attendance	94,132	n/a	131,775	103	226,010	94,132	131,878	226,010
Net Handle	\$9,063,558	\$12,061,661	\$26,540,114	\$21,519,157	\$69,184,490	\$21,125,219	\$48,059,272	\$57,122,830
Horse Purse				\$46,143	\$46,143	\$0	\$46,143	\$46,143
Greyhound Purse	\$453,172	\$48,247	\$822,109	\$128,792	\$1,452,319	\$501,418	\$950,901	\$1,404,072
TTA Purse				\$154,761	\$154,761	\$0	\$154,761	\$154,761
TQHA Purse				\$154,761	\$154,761	\$0	\$154,761	\$154,761
TGA Purse					\$0	\$0	\$0	\$0
Escrowed Horse Purse				\$893,067	\$893,067	\$0	\$893,067	\$893,067
TX Horsemen's Partnership					\$0	\$0	\$0	\$0
THP Escrow Horse Purse				\$128,927	\$128,927	\$0	\$128,927	\$128,927
Texas Bred			\$248,456	\$170,044	\$418,500	\$0	\$418,500	\$418,500
State Tax			\$265,353	\$268,627	\$533,980	\$0	\$533,980	\$533,980
Hub Fee				\$309,990	\$309,990	\$0	\$309,990	\$309,990
Simulcast Fee			\$734,906	\$922,669	\$1,657,576	\$0	\$1,657,576	\$1,657,576
Racetracks	<u>\$1,564,326</u>	<u>\$358,512</u>	<u>\$4,025,696</u>	<u>\$1,480,107</u>	<u>\$7,428,641</u>	<u>\$1,922,838</u>	<u>\$5,505,803</u>	<u>\$7,070,129</u>
Total Commissions	\$2,017,498	\$406,759	\$6,096,521	\$4,665,100	\$13,185,878	\$2,424,257	\$10,761,621	\$12,779,119
Breakage	\$26,552	\$0	\$39,124	\$67,879	\$133,555	\$26,552	\$107,004	\$133,555

Net LOSS of wagering dollars in Texas as a result of simulcasting at greyhound racetracks:

\$7,512,132 Total Export-Interstate Handle - Out of state locations wagering on Texas greyhound racetracks
\$45,808,060 Total Import-Interstate Handle - Texas greyhound racetracks wagering on out of state racetracks
 -\$38,295,928 Net LOSS of wagering dollars in Texas as a result of simulcasting at greyhound racetracks

Summary of All Texas Horse Racetracks
from 1/1/2012 through 12/31/2012

	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
	Live On-Track	Live Export	Simulcast Same-Species	Simulcast Cross-Species	Sum of 1 through 4 Total	Sum of 1 & 2 Live On-Track & Export Total	Sum of 3 & 4 Combined Simulcast Import Total	Sum of 1 & 7 Combined On-Track Total
Number of Race Days	193	n/a	1,788	2,266	4,247	193	4,054	4,247
Number of Performances	193	n/a	25,840	12,533	38,566	193	38,373	38,566
Attendance	766,538	n/a	500,866	301	1,267,705	766,538	501,167	1,267,705
Net Handle	\$29,562,290	\$105,354,221	\$203,131,532	\$31,590,793	\$369,638,835	\$134,916,511	\$234,722,324	\$264,284,615
Horse Purse	\$2,209,981	\$1,422,006	\$14,836,987	\$394,504	\$18,863,478	\$3,631,987	\$15,231,491	\$17,441,472
Greyhound Purse				\$170,783	\$170,783	\$0	\$170,783	\$170,783
TTA Purse					\$0	\$0	\$0	\$0
TQHA Purse					\$0	\$0	\$0	\$0
TGA Purse				\$1,566,475	\$1,566,475	\$0	\$1,566,475	\$1,566,475
Escrowed Horse Purse					\$0	\$0	\$0	\$0
TX Horsemen's Partnership					\$0	\$0	\$0	\$0
THP Escrow Horse Purse					\$0	\$0	\$0	\$0
Texas Bred	\$159,890		\$1,502,897	\$287,073	\$1,949,860	\$159,890	\$1,789,970	\$1,949,860
State Tax			\$2,030,955	\$394,504	\$2,425,459	\$0	\$2,425,459	\$2,425,459
Hub Fee				\$427,065	\$427,065	\$0	\$427,065	\$427,065
Simulcast Fee			\$8,004,380	\$894,842	\$8,899,222	\$0	\$8,899,222	\$8,899,222
Racetracks	<u>\$3,764,167</u>	<u>\$2,390,732</u>	<u>\$16,900,901</u>	<u>\$3,108,041</u>	<u>\$26,163,841</u>	<u>\$6,154,899</u>	<u>\$20,008,942</u>	<u>\$23,773,109</u>
Total Commissions	\$6,134,038	\$3,812,739	\$43,276,120	\$7,243,287	\$60,466,183	\$9,946,777	\$50,519,407	\$56,653,445
Breakage	\$199,577	\$0	\$770,317	\$55,784	\$1,025,677	\$199,577	\$826,101	\$1,025,677

Net LOSS of wagering dollars in Texas as a result of simulcasting at horse racetracks:

\$100,297,268 Total Export-Interstate Handle - Out of state locations wagering on Texas horse racetracks
\$227,377,547 Total Import-Interstate Handle - Texas Horse racetracks wagering on out of state racetracks
 -\$127,080,279 Net LOSS of wagering dollars in Texas as a result of simulcasting at horse racetracks

TTA: Texas Thoroughbred Association

TQHA: Texas Quarter Horse Association

Breakage: the odd cents by which the amount payable on each dollar wagered exceeds a multiple of 10 cents, except in the event of a minus pool, in which case the breakage is based on a multiple of 5 cents.

TGA: Texas Greyhound Association

THP: Texas Horsemen's Partnership

Summary of All Texas Racetracks from 1/1/2012 through 12/31/2012

	Column 1 Live On-Track	Column 2 Live Export	Column 3 Simulcast Same-Species	Column 4 Simulcast Cross-Species	Column 5 Sum of 1 through 4 Total	Column 6 Sum of 1 & 2 Live On-Track & Export Total	Column 7 Sum of 3 & 4 Combined Simulcast Import Total	Column 8 Sum of 1 & 7 Combined On-Track Total
Number of Race Days	449	n/a	3,233	3,630	7,312	449	6,863	7,312
Number of Performances	464	n/a	38,450	24,343	63,257	464	62,793	63,257
Attendance	860,670	n/a	632,641	404	1,493,715	860,670	633,045	1,493,715
Net Handle	\$38,625,848	\$117,415,881	\$229,671,646	\$53,109,950	\$438,823,326	\$156,041,730	\$282,781,596	\$321,407,444
Horse Purse	\$2,209,981	\$1,422,006	\$14,836,987	\$440,647	\$18,909,621	\$3,631,987	\$15,277,634	\$17,487,615
Greyhound Purse	\$453,172	\$48,247	\$822,109	\$299,575	\$1,623,103	\$501,418	\$1,121,684	\$1,574,856
TTA Purse	\$0	\$0	\$0	\$154,761	\$154,761	\$0	\$154,761	\$154,761
TQHA Purse	\$0	\$0	\$0	\$154,761	\$154,761	\$0	\$154,761	\$154,761
TGA Purse	\$0	\$0	\$0	\$1,566,475	\$1,566,475	\$0	\$1,566,475	\$1,566,475
Escrowed Horse Purse	\$0	\$0	\$0	\$893,067	\$893,067	\$0	\$893,067	\$893,067
TX Horsemen's Partnership	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
THP Escrow Horse Purse	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Texas Bred	\$159,890	\$0	\$1,751,353	\$457,117	\$2,368,360	\$159,890	\$2,208,470	\$2,368,360
State Tax	\$0	\$0	\$2,296,308	\$663,131	\$2,959,439	\$0	\$2,959,439	\$2,959,439
Hub Fee	\$0	\$0	\$0	\$737,055	\$737,055	\$0	\$737,055	\$737,055
Simulcast Fee	\$0	\$0	\$8,739,286	\$1,817,512	\$10,556,798	\$0	\$10,556,798	\$10,556,798
Racetracks	\$5,328,493	\$2,749,244	\$20,926,597	\$4,588,148	\$33,592,483	\$8,077,737	\$25,514,745	\$30,843,238
Total Commissions	\$8,151,536	\$4,219,497	\$49,372,640	\$11,908,387	\$73,652,061	\$12,371,033	\$61,281,028	\$69,432,564
Breakage	\$226,128	\$0	\$809,441	\$123,663	\$1,159,233	\$226,128	\$933,104	\$1,159,233

Net LOSS of wagering dollars in Texas as a result of simulcasting at Texas racetracks:

\$107,809,400	Total Export-Interstate Handle - Out of state locations wagering on Texas racetracks
<u>\$273,185,607</u>	Total Import-Interstate Handle - Texas racetracks wagering on out of state racetracks
<u>-\$165,376,207</u>	Net LOSS of wagering dollars in Texas as a result of simulcasting

Five-Year Overview of Pari-Mutuel Racing

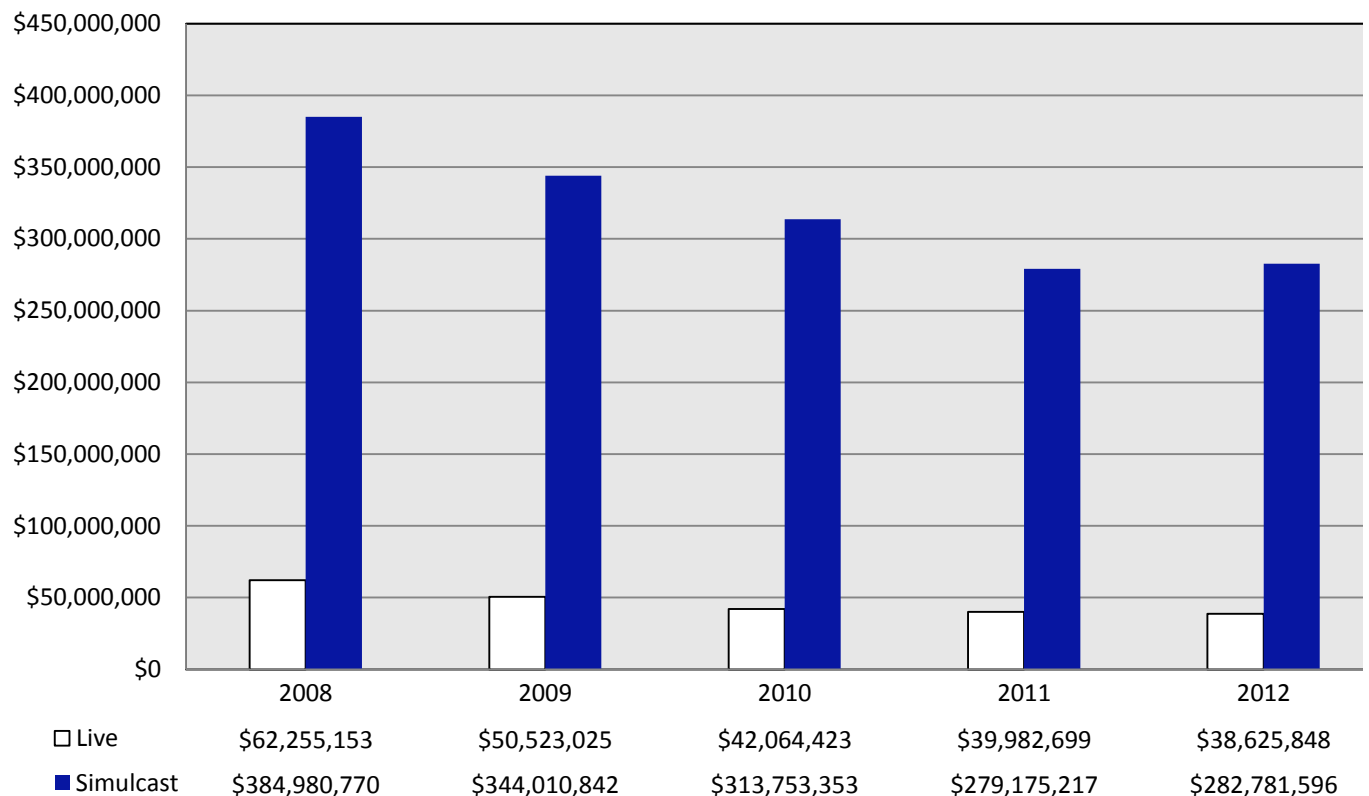
GREYHOUND & HORSE TRACKS COMBINED

	2008	2009	2010	2011	2012
Number of Operating Tracks	7	8	8	7	8
Handle On-Track:					
Live	\$62,255,153	\$50,523,025	\$42,064,423	\$39,982,699	\$38,625,848
Simulcast	<u>\$384,980,770</u>	<u>\$344,010,842</u>	<u>\$313,753,353</u>	<u>\$279,175,217</u>	<u>\$282,781,596</u>
TOTAL	\$447,235,923	\$394,533,867	\$355,817,776	\$319,157,916	\$321,407,444
Live Performances	733	578	567	506	464
Number of Simulcast Signals Taken	58,119	61,264	59,418	59,354	62,793
Purses Paid	\$38,673,756	\$33,634,795	\$28,440,346	\$26,947,152	\$27,559,441
State Tax	\$4,009,199	\$3,591,738	\$3,290,455	\$2,928,134	\$2,959,439
Texas Bred	\$4,758,559	\$4,323,299*	\$3,843,854**	\$3,390,338	\$3,458,027
Attendance	2,270,483	2,140,925	1,716,877	1,531,200	1,493,715

*The 2009 Texas-Bred figure has been updated as of July 7, 2010, from the figure originally reported in the Annual Report released January 31, 2010.

**The 2010 Texas-Bred figure has been updated as of March 8, 2011, from the figure originally reported in the Annual Report released January 31, 2011.

On-Track Handle Greyhound & Horse Combined

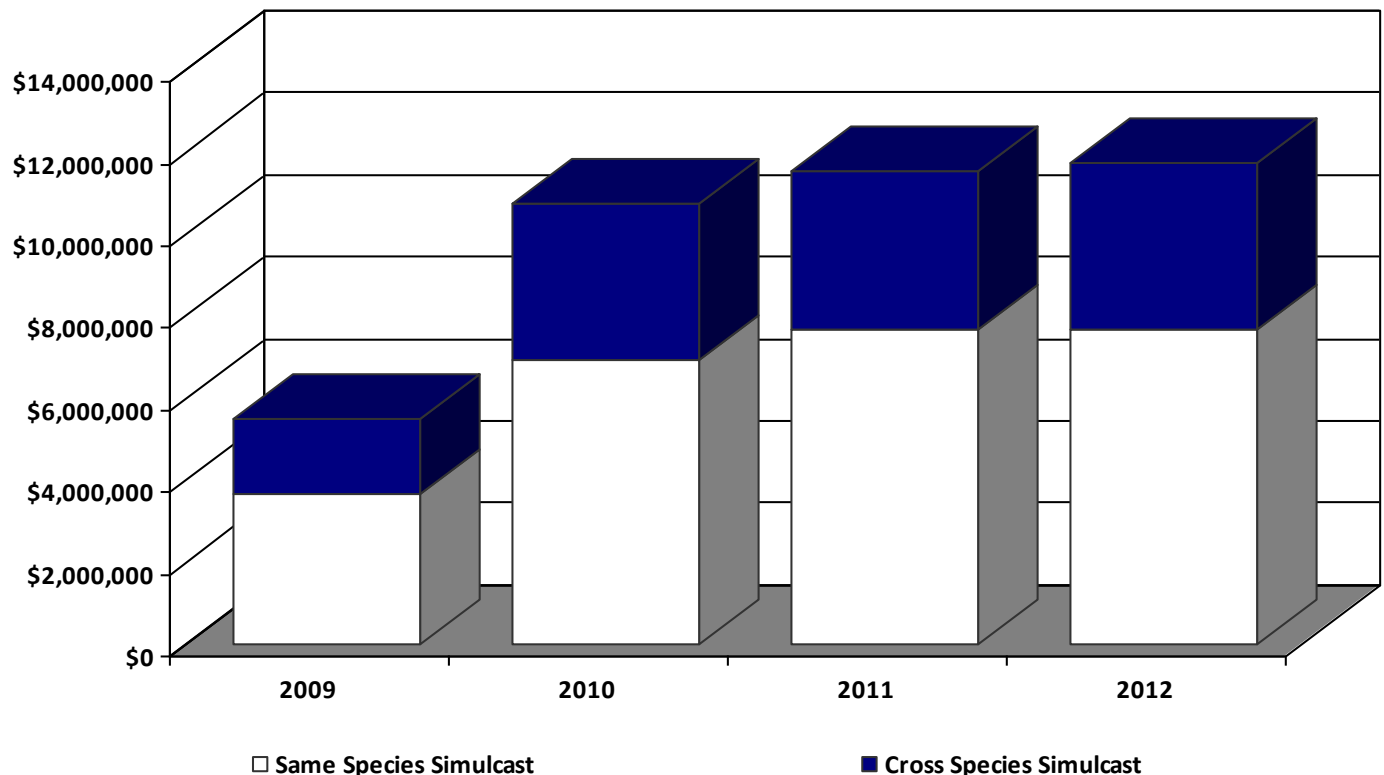


Greyhound Racetrack

GULF COAST RACING

	2011	2012	% Change
Live On-Track Handle	\$0	\$0	N/A
Import Same Species Simulcast	\$7,639,089	\$7,666,696	0.36%
Import Cross Species Simulcast	\$3,867,860	\$4,043,172	4.53%
Total On-Track Handle	\$11,506,948	\$11,709,867	1.76%
Total Export Handle	\$0	\$0	N/A
Total Wagered on Gulf Coast Racing	\$0	\$0	N/A
Average Value per Point	\$0.00	\$0.00	N/A
Average Purses Paid/Performance	\$0	\$0	N/A
Total Purses Paid	\$0	\$0	N/A
Total Live Performances	0	0	N/A
Total Number of Simulcast Signals Taken	5,467	5,992	9.60%
Total Attendance	40,678	39,048	-4.01%

**2009-2012
Gulf Coast Racing**



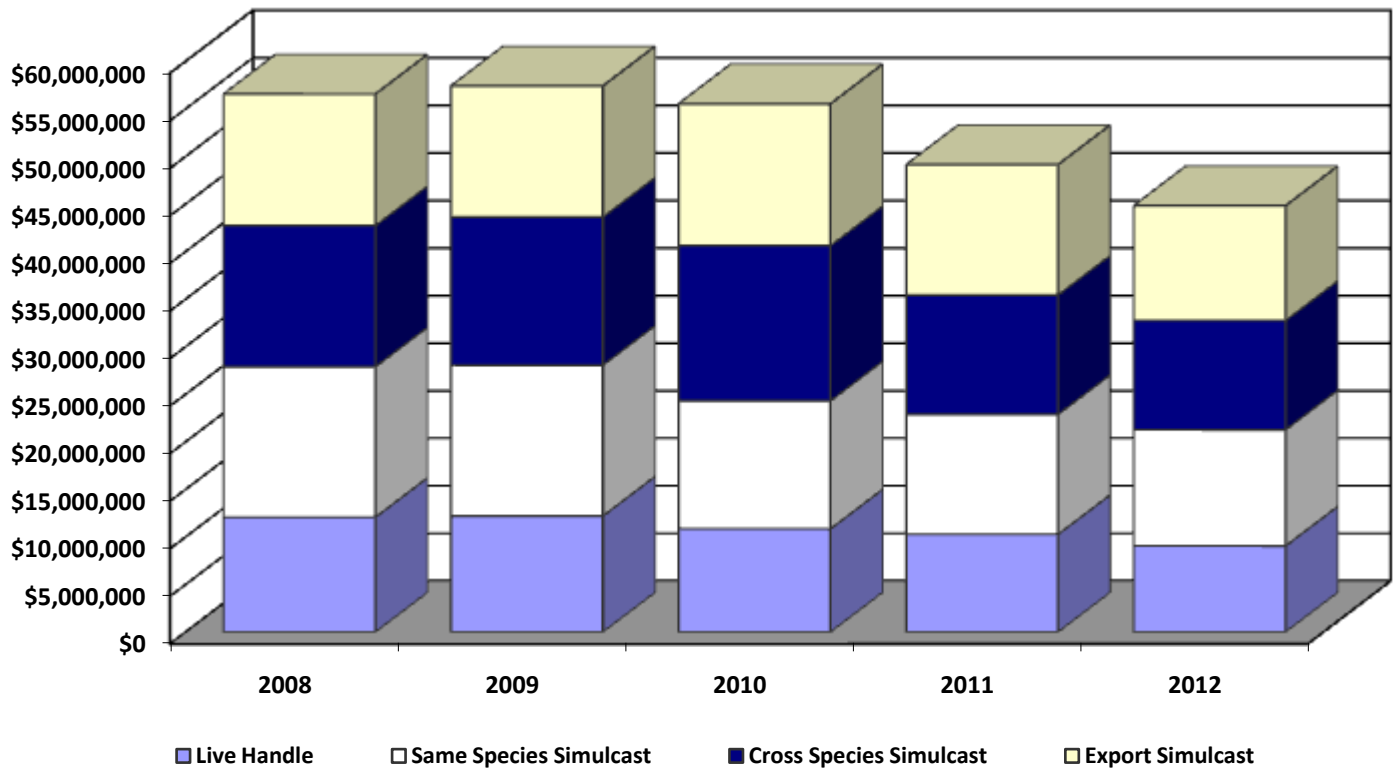
Corpus Christi Greyhound Race Track ceased pari-mutuel operations on December 31, 2007. Under new ownership, Gulf Coast Racing resumed pari-mutuel operations on July 3, 2009.

Greyhound Racetrack

GULF GREYHOUND PARK

	2011	2012	% Change
Live On-Track Handle	\$10,275,169	\$9,063,558	-11.79%
Import Same Species Simulcast	\$12,611,793	\$12,211,354	-3.18%
Import Cross Species Simulcast	\$12,546,334	\$11,480,267	-8.50%
Total On-Track Handle	\$35,433,296	\$32,755,179	-7.56%
Total Export Handle	\$13,702,143	\$12,061,661	-11.97%
Total Wagered on Gulf Greyhound Park	\$23,977,312	\$21,125,219	-11.89%
Average Value per Point	\$65.68	\$73.11	11.31%
Average Purses Paid/Performance	\$8,272	\$11,492	38.92%
Total Purses Paid	\$2,564,379	\$3,114,339	21.45%
Total Live Performances	310	271	-12.58%
Total Number of Simulcast Signals Taken	8,057	8,097	0.50%
Total Attendance	157,317	137,343	-12.70%

2008-2012
Gulf Greyhound Park

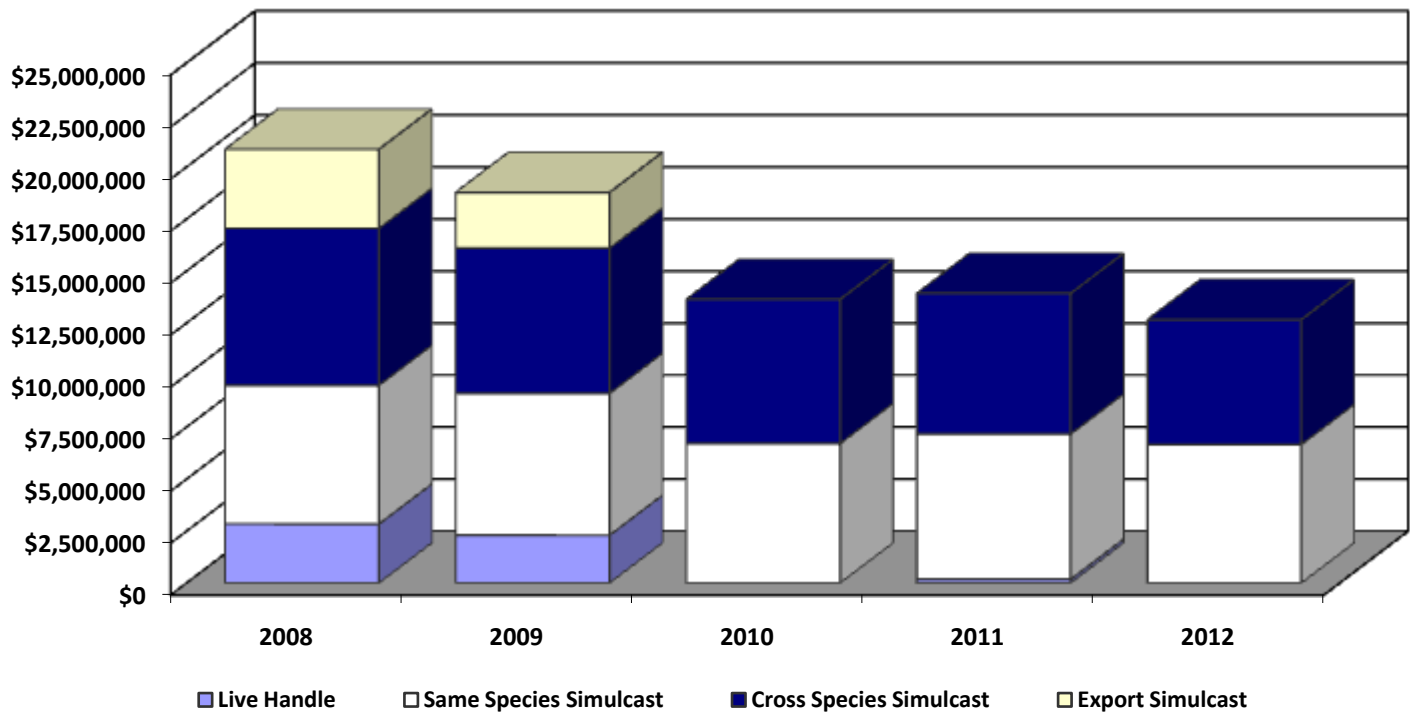


Greyhound Racetrack

VALLEY RACE PARK

	2011	2012	% Change
Live On-Track Handle	\$190,634	\$0	-100.00%
Import Same Species Simulcast	\$6,974,479	\$6,662,064	-4.48%
Import Cross Species Simulcast	\$6,753,777	\$5,995,719	-11.22%
Total On-Track Handle	\$13,918,890	\$12,657,783	-9.06%
Total Export Handle	\$0	\$0	N/A
Total Wagered on Valley Race Park	\$190,634	\$0	-100.00%
Average Value per Point	\$428.56	\$0.00	-100.00%
Average Purses Paid/Performance	\$47,848	\$0	-100.00%
Total Purses Paid	\$239,238	\$0	-100.00%
Total Live Performances	5	0	-100.00%
Total Number of Simulcast Signals Taken	9,525	10,331	8.46%
Total Attendance	58,269	49,619	-14.84%

**2008-2012
Valley Race Park**



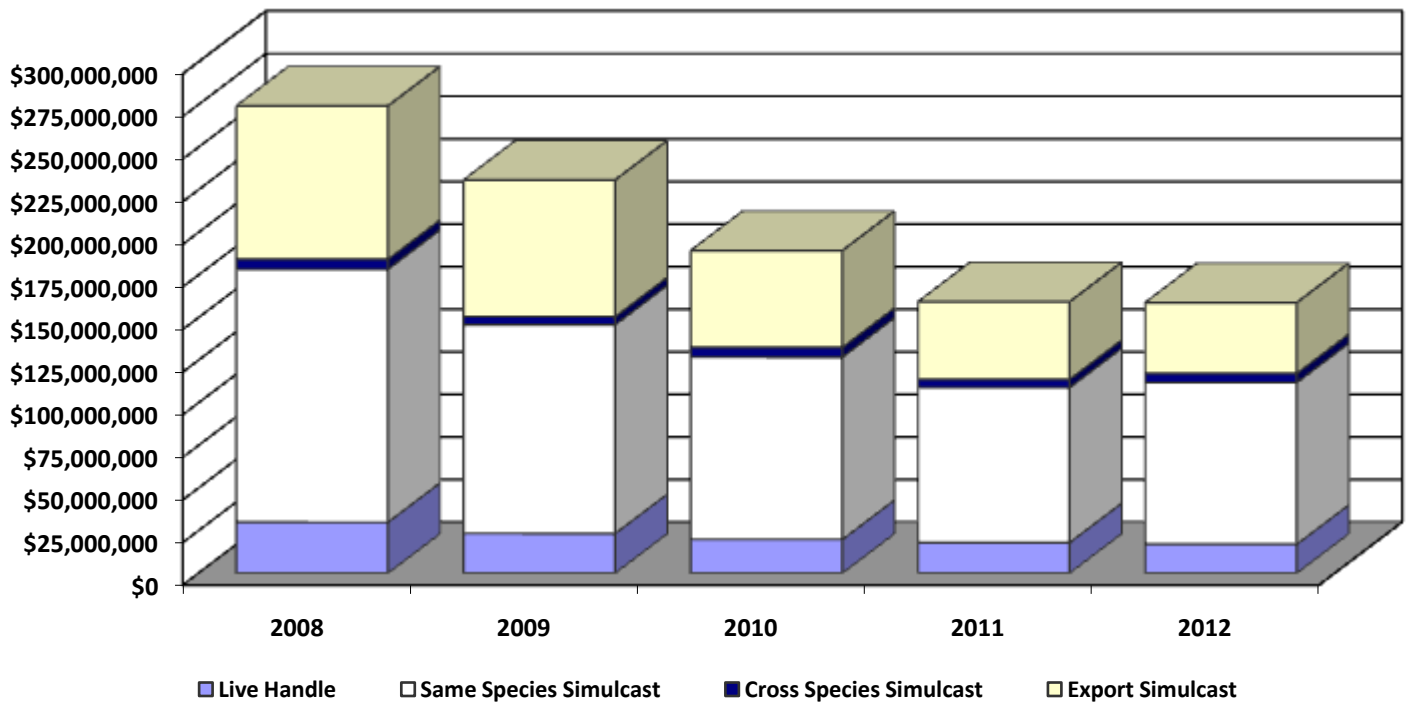
Valley Race Park did not request live race dates for 2010 or 2012.

Class 1 Horse Racetrack

LONE STAR PARK AT GRAND PRAIRIE

	2011	2012	% Change
Live On-Track Handle	\$18,018,110	\$17,055,759	-5.34%
Import Same Species Simulcast	\$90,906,017	\$94,834,151	4.32%
Import Cross Species Simulcast	\$4,892,232	\$5,439,821	11.19%
Total On-Track Handle	\$113,816,359	\$117,329,731	3.09%
Total Export Handle	\$45,445,767	\$41,462,759	-8.76%
Total Wagered on Lone Star Park	\$63,463,876	\$58,518,518	-7.79%
Average Purses Paid/Quarter Horse	\$125,131	\$128,989	3.08%
Number of Quarter Horse Race Dates	26	26	0.00%
Average Purses Paid/Thoroughbred	\$182,759	\$141,236	-22.72%
Number of Thoroughbred Race Dates	46	53	15.22%
Total Purses Paid	\$11,823,797	\$11,060,311	-6.46%
Total Live Performances	72	79	9.72%
Total Number of Simulcast Signals Taken	9,643	10,880	12.83%
Total Attendance	661,489	684,801	3.52%

2008-2012
Lone Star Park at Grand Prairie

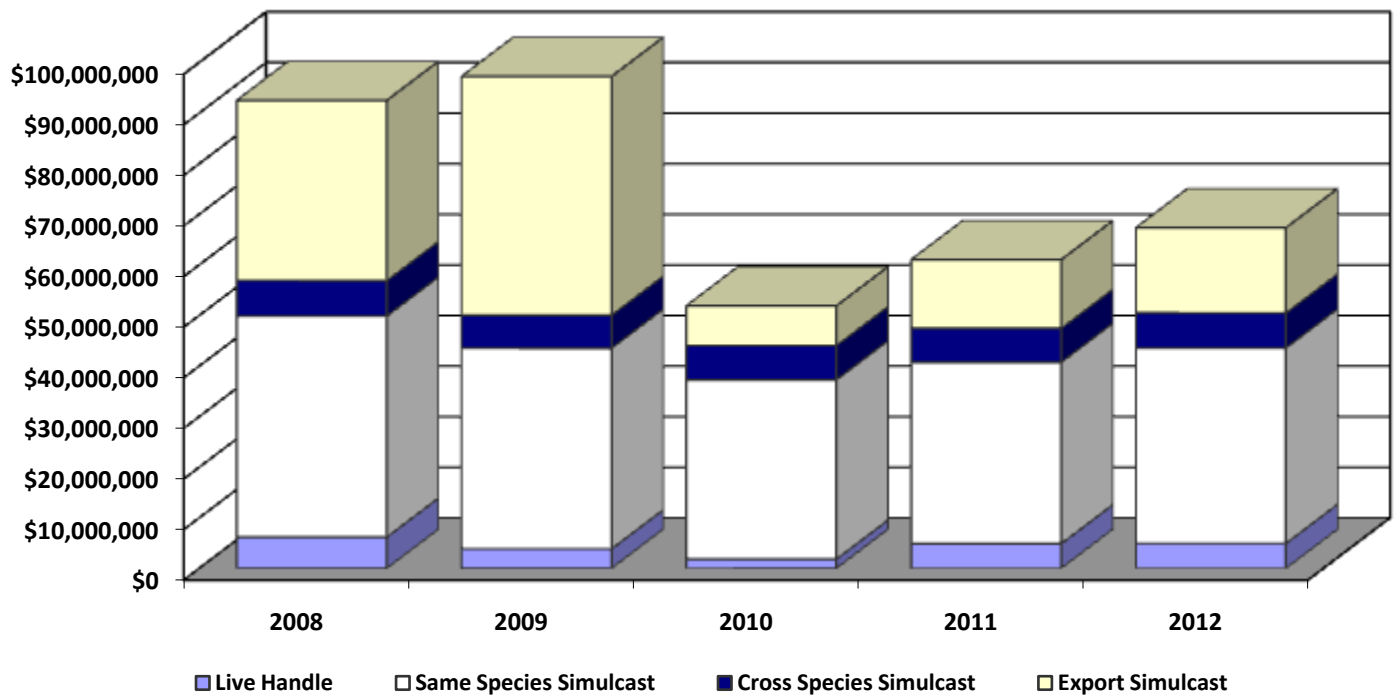


Class 1 Horse Racetrack

RETAMA PARK

	2011	2012	% Change
Live On-Track Handle	\$4,881,762	\$4,957,145	1.54%
Import Same Species Simulcast	\$35,847,100	\$38,609,599	7.71%
Import Cross Species Simulcast	\$6,719,992	\$6,933,117	3.17%
Total On-Track Handle	\$47,448,854	\$50,499,861	6.43%
Total Export Handle	\$13,534,832	\$16,819,225	24.27%
Total Wagered on Retama Park	\$18,416,594	\$21,776,371	18.24%
Average Purses Paid/Quarter Horse	\$139,128	\$88,051	-36.71%
Number of Quarter Horse Race Dates	14	22	57.14%
Average Purses Paid/Thoroughbred	\$204,892	\$118,010	-42.40%
Number of Thoroughbred Race Dates	13	26	100.00%
Total Purses Paid	\$4,734,946	\$5,159,280	8.96%
Total Live Performances	47	48	2.13%
Total Number of Simulcast Signals Taken	9,793	10,030	2.42%
Total Attendance	262,436	254,776	-2.92%

**2008-2012
Retama Park**

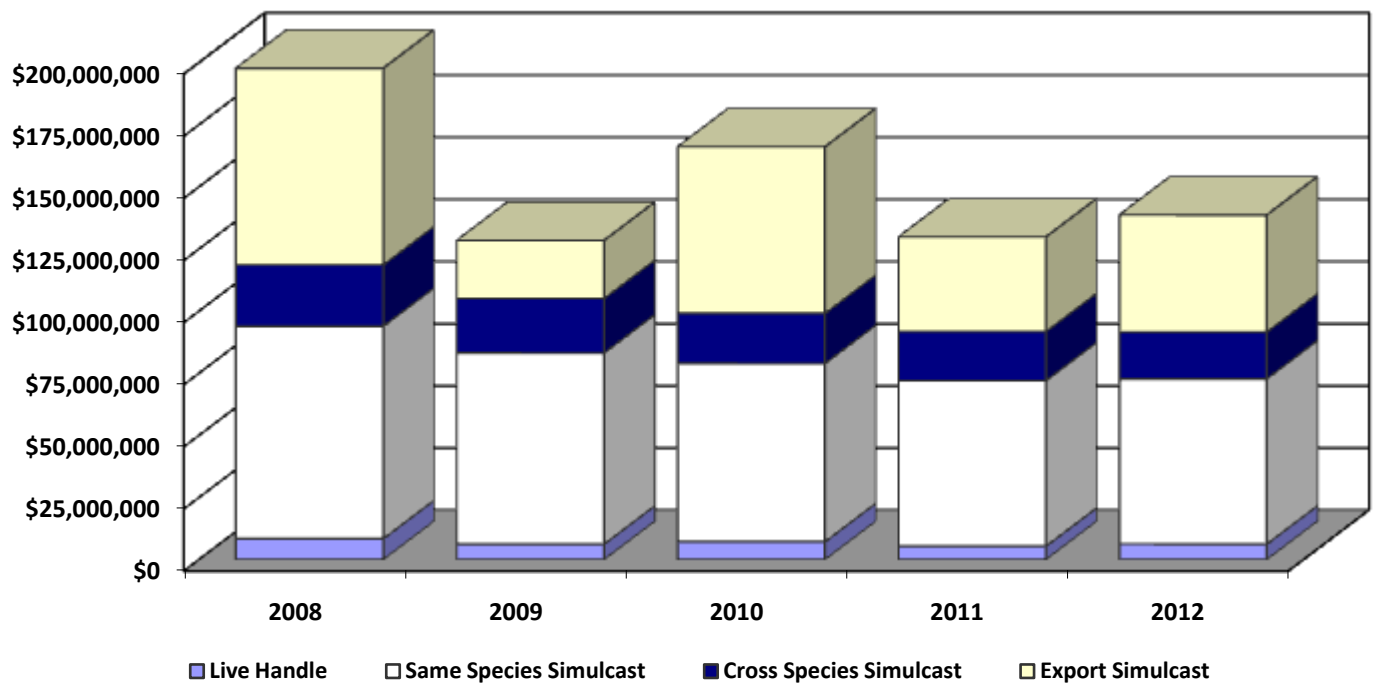


Class 1 Horse Racetrack

SAM HOUSTON RACE PARK

	2011	2012	% Change
Live On-Track Handle	\$5,371,018	\$6,257,257	16.50%
Import Same Species Simulcast	\$66,611,214	\$66,486,490	-0.19%
Import Cross Species Simulcast	\$19,748,700	\$18,856,443	-4.52%
Total On-Track Handle	\$91,730,932	\$91,600,190	-0.14%
Total Export Handle	\$38,077,385	\$47,065,429	23.60%
Total Wagered on Sam Houston Race Park	\$43,448,403	\$53,322,686	22.73%
Average Purses Paid/Quarter Horse	\$86,980	\$90,694	4.27%
Number of Quarter Horse Race Dates	30	27	-10.00%
Average Purses Paid/Thoroughbred	\$150,074	\$156,758	4.45%
Number of Thoroughbred Race Dates	27	31	14.81%
Total Purses Paid	\$6,858,341	\$7,548,196	10.06%
Total Live Performances	57	58	1.75%
Total Number of Simulcast Signals Taken	13,543	13,966	3.12%
Total Attendance	336,449	313,266	-6.89%

2008-2012
Sam Houston Race Park

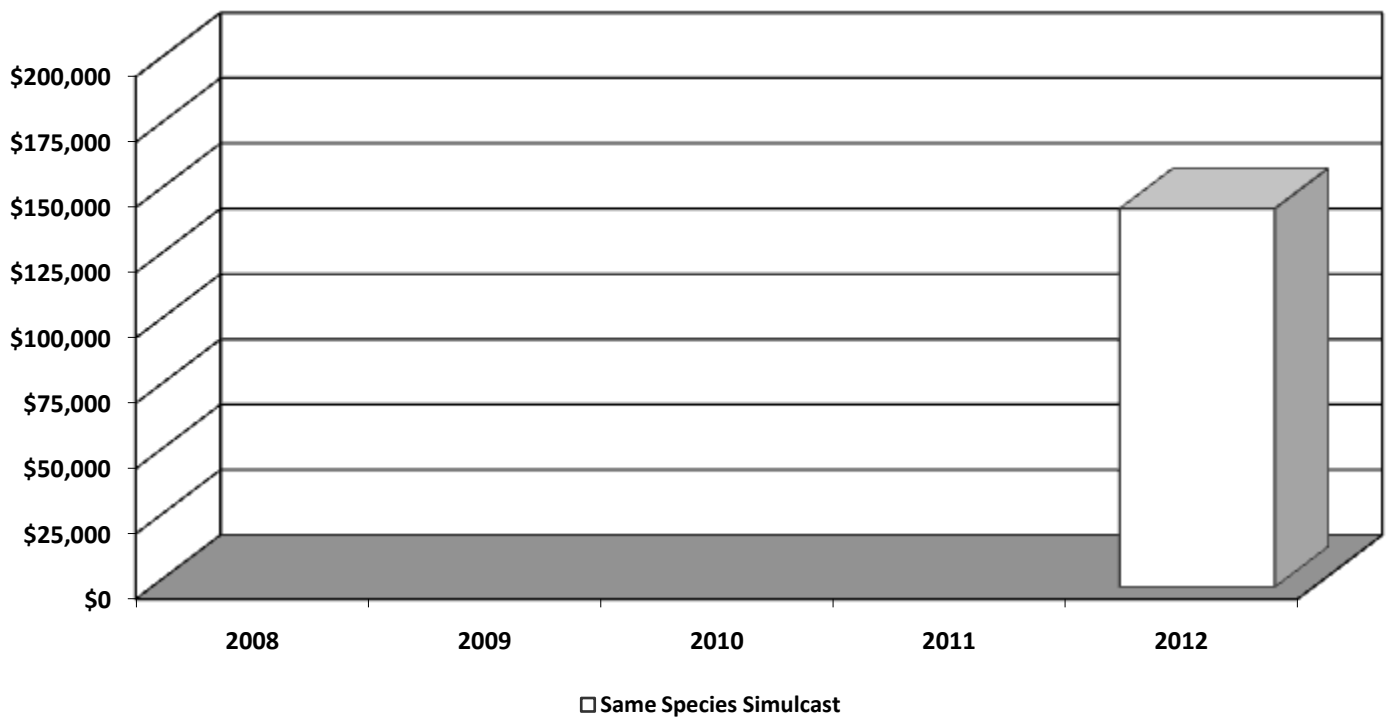


Class 2 Horse Racetrack

SADDLE BROOK JOCKEY CLUB

	2011	2012	% Change
Live On-Track Handle	\$0	\$0	0.00%
Import Same Species Simulcast	\$0	\$144,909	100.00%
Import Cross Species Simulcast	\$0	\$0	0.00%
Total On-Track Handle	\$0	\$144,909	100.00%
Total Export Handle	\$0	\$0	0.00%
Total Wagered on SBP	\$0	\$0	0.00%
Average Purses Paid/Quarter Horse	\$0	\$0	0.00%
Average Purses Paid/Thoroughbred	\$0	\$0	0.00%
Average Purses Paid/Minor Breed	\$0	\$0	0.00%
Number of Mixed Race Dates	0	0	0.00%
Total Purses Paid	\$0	\$0	0.00%
Total Live Performances	0	0	0.00%
Total Number of Simulcast Signals Taken	0	146	100.00%
Total Attendance	0	N/A	0.00%

2008-2012
Saddle Brook Jockey Club



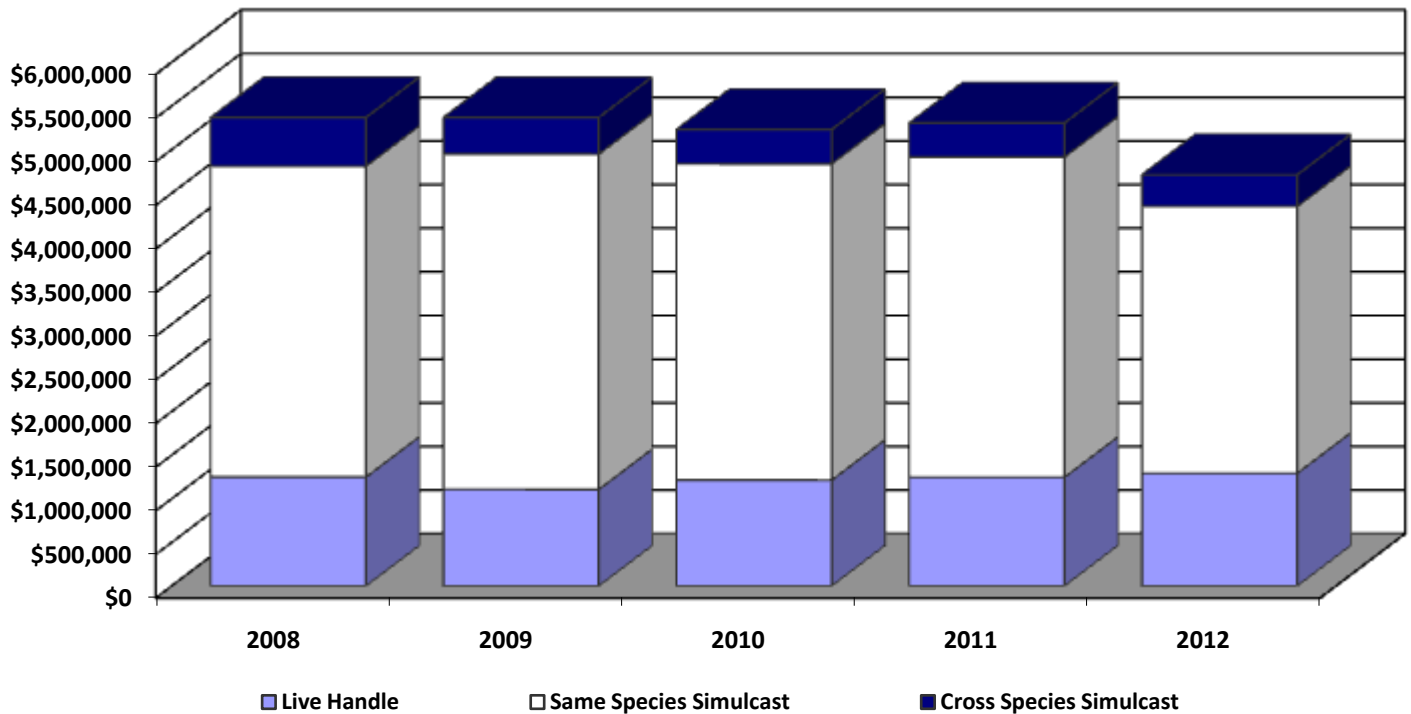
Saddle Brook Jockey Club (Saddle Brook Park) commenced pari-mutuel operations on December 13, 2012.

Class 3 Horse Racetrack

GILLESPIE COUNTY FAIR & FESTIVALS ASSOCIATION

	2011	2012	% Change
Live On-Track Handle	\$1,246,006	\$1,292,129	3.70%
Import Same Species Simulcast	\$3,668,069	\$3,056,384	-16.68%
Import Cross Species Simulcast	\$388,560	\$361,411	-6.99%
Total On-Track Handle	\$5,302,636	\$4,709,924	-11.18%
Total Export Handle	\$0	\$0	0.00%
Total Wagered on GCF&F	\$1,246,006	\$1,292,129	3.70%
Average Purses Paid/Quarter Horse	\$73,825	\$66,866	-9.43%
Average Purses Paid/Thoroughbred	\$18,407	\$18,600	1.05%
Number of Mixed Race Dates	8	8	0.00%
Total Purses Paid	\$726,450	\$677,316	-6.76%
Total Live Performances	8	8	0.00%
Total Number of Simulcast Signals Taken	3,326	3,351	0.75%
Total Attendance	14,562	14,862	2.06%

2008-2012
Gillespie County Fair & Festivals Association



KEY AGENCY STATISTICS: SUMMARY OF FY 2012 FINANCIAL DATA

Combined Statement of Revenues & Expenditures	Fiscal Year	Fiscal Year	Change
Source: Annual Financial Reports	2011	2012	+/- %
REVENUES:			
Legislative Appropriations	(\$222,454.78)	\$0.00	-100.00%
Licenses, Fees & Permits	\$3,414,121.15	\$5,614,278.41	64.44%
Interest & Other Investment Income	\$16,506.19	\$17,566.33	6.42%
Other Revenues	<u>\$4,057,751.24</u>	<u>\$3,344,730.06</u>	-17.57%
TOTAL REVENUES	<u>\$7,265,923.80</u>	<u>\$8,976,574.80</u>	23.54%
EXPENDITURES:			
Salaries & Wages	\$3,037,487.82	\$2,642,430.10	-13.01%
Payroll-Related Costs	\$872,766.40	\$817,196.01	-6.37%
Professional Fees & Services	\$138,345.38	\$116,076.60	-16.10%
Travel	\$153,853.18	\$149,083.97	-3.10%
Materials & Supplies	\$99,481.95	\$154,858.65	55.67%
Communications & Utilities	\$89,262.50	\$88,512.56	-0.84%
Repairs & Maintenance	\$50,425.49	\$74,039.34	46.83%
Rentals & Leases	\$116,950.12	\$113,232.09	-3.18%
Printing & Reproduction	\$970.15	\$1,029.89	6.16%
Claims & Judgments	\$0.00	\$26,887.50	0%
Distributions to Others	\$3,531,892.01	\$3,652,277.80	3.41%
Depreciation Expense	\$0.00	\$0.00	0%
Capital Outlay	<u>\$19,456.37</u>	<u>\$20,818.38</u>	7.00%
TOTAL EXPENDITURES	<u>\$8,110,891.37</u>	<u>\$7,856,442.89</u>	-3.14%
EXCESS REVENUES OVER EXPENDITURES	<u>(\$844,967.57)</u>	<u>\$1,120,131.91</u>	-232.57%
OTHER FINANCING SOURCES (USES):			
Operating Transfer In:			
Loss on Sale of Capital Assets	\$0.00	\$0.00	0%
Operating Transfers Out:			
Agency 902, Fund 001, Sweep/Loan Repayment	\$0.00	(\$1,500,000.00)	0%
Agency 556, Fund 001, Equine Research	<u>(\$69,806.54)</u>	<u>(\$59,163.70)</u>	-15.25%
TOTAL OTHER FINANCING SOURCES/(USES)	<u>(\$69,806.54)</u>	<u>(\$1,559,163.70)</u>	2133.55%
NET GAIN/LOSS FROM OPERATIONS	<u>(\$914,774.11)</u>	<u>(\$439,031.79)</u>	-52.01%
BEGINNING FUND BALANCE	\$3,253,487.21	\$2,334,153.39	-28.26%
Adjusting entry to fund balance:			
Funds in Suspense	\$0.00	\$75,000.00	0%
Restatements	(\$4,559.71)	\$0.00	
After Annual Financial Report deadline	\$0.00	\$0.00	0%
BEGINNING FUND BALANCE – RESTATED	<u>\$3,248,927.50</u>	<u>\$1,970,121.60</u>	-39.36%
Capital Assets & Long-Term Liability Adjustments	<u>\$0.00</u>	<u>\$0.00</u>	0%
ENDING FUND BALANCE	<u>\$2,334,153.39</u>	<u>\$1,970,121.60</u>	-15.60%

KEY AGENCY STATISTICS: SUMMARY OF FY 2012 PERFORMANCE MEASURE DATA

Fiscal Year 2012 KEY MEASURES	Target	Actual	% of Target	Met or Exceeded
Outcome Measures				
Percentage of Investigations Resulting in Disciplinary Action	95.00%	94.90%	100%	✓
Percentage of Licensees with No Recent Violations	95.00%	97.04%	102%	✓
Percentage of Race Animals Injured or Dismissed from Racetracks	0.35%	0.32%	91%	✓
Average Time (minutes) Required to Issue a New Occupational License	20	13	65%	✓
Percentage of Compliance Audits Passed	95.00%	99.20%	104%	✓
Output Measures				
Number of Racetrack Inspections	79	70	89%	
Number of Texas-bred Awards	12,500	10,987	88%	
Number of Occupational Licenses Suspended or Revoked	147	93	63%	
Number of Investigations Completed	175	137	78%	
Number of Race Animals Inspected Prior to Participating in a Race	50,000	45,328	91%	
Number of New Occupational Licenses Issued	3,000	2,153	72%	
Number of Occupational Licenses Renewed	6,000	4,761	79%	
Efficiency Measures				
Average Regulatory Cost per Racetrack	\$30,599	\$25,702	84%	✓
Average Regulatory Cost per Licensee	\$53.28	\$57.56	108%	
Explanatory Measures				
Number of Horse Racetracks Regulated	10	10	100%	✓
Number of Greyhound Racetracks Regulated	3	3	100%	✓
Total Pari-mutuel Handle (in millions)	\$347.43	\$320.76	92%	
Total Take to the State Treasury from Pari-mutuel Wagering (in millions)	\$3,196,356	\$2,948,310	92%	

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Note: Except where otherwise indicated, information in this report is for
calendar year 2012 and has not been audited.